

WASHINGTON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
District-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Net Assets	H	20
Statement of Cash Flows	I	21
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	22
Statement of Changes in Fiduciary Net Assets	K	23
Notes to Financial Statements		24-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		35
Notes to Required Supplementary Information - Budgetary Reporting		36
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	38
Schedule of Changes in Student Activity Accounts	3	39-41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	42
Schedule of Expenditures of Federal Awards	5	43-44
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		45-46
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance		47-48
Schedule of Findings and Questioned Costs		49-57

Washington Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2006 Election)		
Tim Orris	President	2008
Ron Goodwin	Board Member	2008
Eric Turner	Board Member	2008
Jim Gorham	Board Member	2007
Cathy Rich	Board Member	2007
Julie Peshkin	Board Member (Resigned)	2006
Heidi Vittetoe	Board Member (Appointed)	2006
Vicki Reighard	Board Member	2006
Board of Education		
(After September 2006 Election)		
Tim Orris	President	2008
Patty Roe	Board Member	2009
Heidi Vittetoe	Board Member	2009
Ron Goodwin	Board Member	2008
Eric Turner	Board Member	2008
Jim Gorham	Board Member	2007
Cathy Rich	Board Member	2007
School Officials		
David Schmitt	Superintendent	2007
Kimberly Sheets	Business Manager/ District Secretary	2007
Kevin Caldwell	District Treasurer	2007
Brian Gruhn	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Washington Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Washington Community School District, Washington, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Washington Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2008 on our consideration of Washington Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Washington Community School District's basic financial statements. Another auditor previously audited the financial statements for the previous three years ended June 30, 2006, (none of which are presented herein) in accordance with the standards referred to in the second paragraph of this report, and unqualified opinions were expressed on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 7, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Washington Community School District provides the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$14,444,898 in fiscal 2006 to \$14,880,546 in fiscal 2007, while General Fund expenditures increased from \$15,136,760 in fiscal 2006 to \$15,915,129 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$348,347 in fiscal 2006 to a balance of deficit \$679,692 in fiscal 2007, a 295.12% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in state and federal sources in fiscal 2007. The increase in expenditures was due primarily to increases in negotiated salaries and benefits as well as increases in expenditures funded by grants received by the District.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Washington Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Washington Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Washington Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Denison Community School District Annual Financial Report

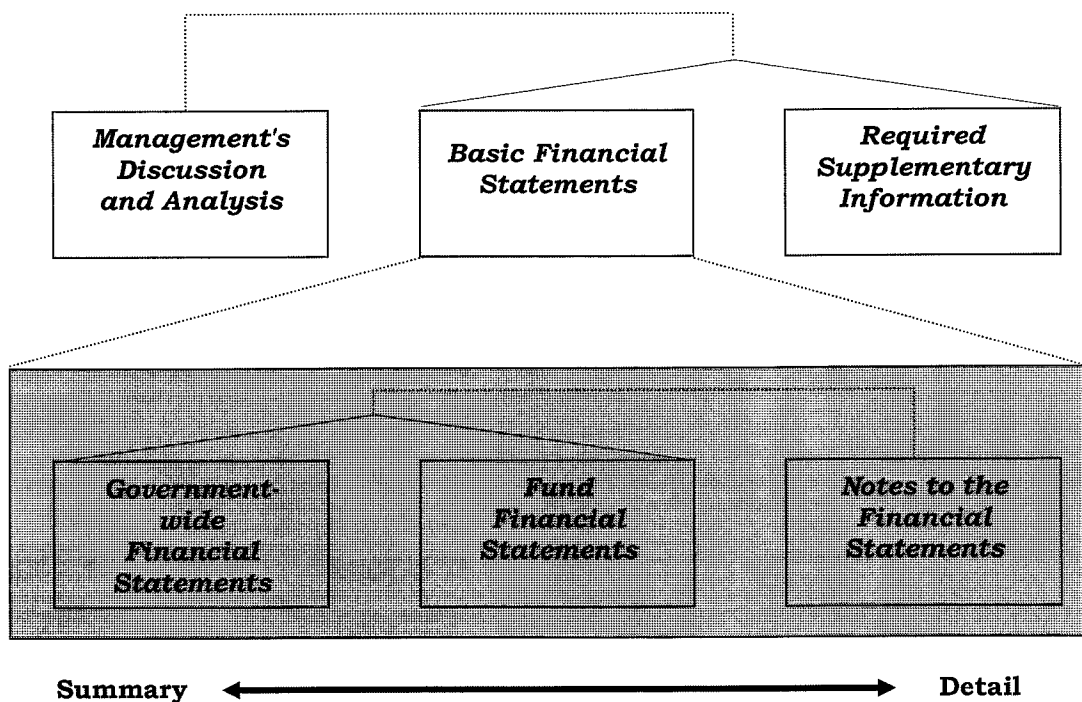


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 13,726,359	11,787,737	118,570	66,810	13,844,929	11,854,547	16.79%
Capital assets	4,408,143	3,974,276	42,581	47,197	4,450,724	4,021,473	10.67%
Total assets	18,134,502	15,762,013	161,151	114,007	18,295,653	15,876,020	15.24%
Long-term obligations	1,095,821	1,135,769	0	0	1,095,821	1,135,769	-3.52%
Other liabilities	10,889,003	8,826,394	75,086	32,191	10,964,089	8,858,585	23.77%
Total liabilities	11,984,824	9,962,163	75,086	32,191	12,059,910	9,994,354	20.67%
Net assets:							
Invested in capital assets, net of related debt	3,408,143	2,974,276	42,581	47,197	3,450,724	3,021,473	14.21%
Restricted	2,831,370	2,839,035	0	0	2,831,370	2,839,035	-0.27%
Unrestricted	(89,835)	(13,461)	43,484	34,619	(46,351)	21,158	-319.07%
Total net assets	\$ 6,149,678	5,799,850	86,065	81,816	6,235,743	5,881,666	6.02%

The District's combined net assets increased by 6.02%, or \$354,077, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased 0.27%, or \$7,665, over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$67,509, or 319.07%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,159,871	958,190	295,328	295,861	1,455,199	1,254,051	16.04%
Operating grants and contributions and restricted interest	2,485,660	2,276,479	342,775	305,777	2,828,435	2,582,256	9.53%
Capital grants and contributions and restricted interest	142,688	97,951	0	0	142,688	97,951	45.67%
General revenues:							
Property tax	5,543,575	4,911,839	0	0	5,543,575	4,911,839	12.86%
Local option sales and services tax	1,036,819	938,967	0	0	1,036,819	938,967	10.42%
Unrestricted state grants	7,282,121	7,266,835	0	0	7,282,121	7,266,835	0.21%
Other	291,473	127,206	1,592	1,283	293,065	128,489	128.09%
Total revenues	17,942,207	16,577,467	639,695	602,921	18,581,902	17,180,388	8.16%
Program expenses:							
Governmental activities:							
Instructional	10,915,201	9,898,887	0	0	10,915,201	9,898,887	10.27%
Support services	5,163,178	5,575,971	0	0	5,163,178	5,575,971	-7.40%
Non-instructional programs	0	0	635,446	605,907	635,446	605,907	4.88%
Other expenses	1,514,000	640,902	0	0	1,514,000	640,902	136.23%
Total expenses	17,592,379	16,115,760	635,446	605,907	18,227,825	16,721,667	9.01%
Excess(deficiency) of revenues over(under) expenses before other financing uses	349,828	461,707	4,249	(2,986)	354,077	458,721	-22.81%
Other financing uses, net	0	(13,128)	0	0	0	(13,128)	100.00%
Changes in net assets	349,828	448,579	4,249	(2,986)	354,077	445,593	-20.54%
Beginning net assets	5,799,850	5,351,271	81,816	84,802	5,881,666	5,436,073	8.20%
Ending net assets	\$ 6,149,678	5,799,850	86,065	81,816	6,235,743	5,881,666	6.02%

In fiscal 2007, property tax and unrestricted state grants account for 71.48% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.75% of the revenue from business type activities.

The District's total revenues were approximately \$18.58 million of which \$17.94 million was for governmental activities and approximately \$0.64 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8.16% increase in revenues and a 9.01% increase in expenses. Unrestricted state grants increased \$15,286 and local tax (property tax and local option sales tax) increased \$729,588 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$17,942,207 and expenses were \$17,592,379.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 10,915,201	9,898,887	10.27%	7,879,829	7,244,088	8.78%
Support services	5,163,178	5,575,971	-7.40%	5,136,712	5,541,130	-7.30%
Other expenses	1,514,000	654,030	131.49%	787,619	11,050	7027.77%
Totals	<u>\$ 17,592,379</u>	<u>16,128,888</u>	<u>9.07%</u>	<u>13,804,160</u>	<u>12,796,268</u>	<u>7.88%</u>

- The cost financed by users of the District's programs was \$1,159,871.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,628,348.
- The net cost of governmental activities was financed with \$5,543,575 in local tax, \$1,036,819 in local option sales and service tax, \$7,282,121 in state grants and \$213,365 in interest income.

Business-Type Activities

Revenues of the District's business-type activity were \$639,695 and expenses were \$635,446. The District's business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Washington Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,207,615, below last year's ending fund balances of \$2,961,343.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in state and federal source revenues resulted in an increase in revenues. The increase in salaries and benefits is one of the reasons for the increase in expenditures. The increase in revenues was not enough to offset the increase in expenditures; the net result was an decrease in fund balance from \$348,347 in fiscal 2006 to a deficit \$679,692 in fiscal 2007.
- The Capital Projects fund balance overall increased from \$1,245,778 in fiscal 2006 to \$1,670,841 in fiscal 2007. The increase in fund balance is due to the fact that revenues for the year surpassed expenditures.

Proprietary Fund Highlights

The School Nutrition Fund's increase in revenues was enough to offset the increase in expenditures thus ensuring a positive gain for the fund. Overall, net assets increased from \$81,816 at June 30, 2006 to \$86,065 at June 30, 2007, representing a increase of 5.19%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,023,923 more than budgeted revenues, a variance of 5.40%. The most significant dollar difference resulted from the District receiving less in local sources than originally anticipated.

Initially, total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. Unfortunately, during the year ended June 30, 2007, the District exceeded budgeted expenditures in the instruction and non-instructional functions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$4,450,724, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 10.67% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$1,082,716.

The original cost of the District's capital assets was \$8,287,631. Governmental funds account for \$8,179,837 with the remainder of \$107,794 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2006 as compared to \$1,078,145 at June 30, 2007. This increase is due to continuing construction projects.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 544,857	544,857	0	0	544,857	544,857	0.00%
Construction in progress	1,078,145	0	0	0	1,078,145	0	100.00%
Buildings	1,757,111	1,776,438	0	0	1,757,111	1,776,438	-1.09%
Land improvements	164,144	825,839	0	0	164,144	825,839	-80.12%
Machinery and equipment	863,886	827,142	42,581	47,197	906,467	874,339	3.67%
Total	\$ 4,408,143	3,974,276	42,581	47,197	4,450,724	4,021,473	10.67%

Long-Term Debt

At June 30, 2007, the District had \$1,095,821 in QZAB bonds and early retirement. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
QZAB bonds	1,000,000	1,000,000	0.0%
Early retirement	95,821	135,769	-29.4%
Total	\$ 1,095,821	1,135,769	-3.5%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future

- Renovation projects are expected to be completed during fiscal year 2008.
- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District. Also continued budget concerns at state level will affect future projections. The District will continue to be forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kimberly Sheets, Business Manager/District Secretary, Washington Community School District, P.O. Box 926, Washington, Iowa, 52353.

BASIC FINANCIAL STATEMENTS

WASHINGTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 4,487,500	0	4,487,500
Other	3,382,327	111,145	3,493,472
Receivables:			
Property tax:			
Delinquent	84,332	0	84,332
Succeeding year	4,438,371	0	4,438,371
Income surtax	629,741	0	629,741
Accounts	7,493	0	7,493
Accrued interest:			
ISCAP(Note 4)	33,331	0	33,331
Other	12,632	0	12,632
Due from other governments	650,632	0	650,632
Inventories	0	7,425	7,425
Capital assets, net of accumulated depreciation(Note 5)	4,408,143	42,581	4,450,724
TOTAL ASSETS	18,134,502	161,151	18,295,653
LIABILITIES			
Accounts payable	523,422	29,192	552,614
Salaries and benefits payable	1,377,151	36,884	1,414,035
ISCAP warrants payable(Note 4)	4,496,000	0	4,496,000
ISCAP interest payable(Note 4)	26,739	0	26,739
ISCAP unamortized premium	27,320	0	27,320
Deferred revenue:			
Succeeding year property tax	4,438,371	0	4,438,371
Unearned revenue	0	9,010	9,010
Long-term liabilities(Note 6):			
Portion due within one year:			
Early retirement payable	51,877	0	51,877
Portion due after one year:			
QZAB bonds payable	1,000,000	0	1,000,000
Early retirement payable	43,944	0	43,944
TOTAL LIABILITIES	11,984,824	75,086	12,059,910
NET ASSETS			
Invested in capital assets, net of related debt	3,408,143	42,581	3,450,724
Restricted for:			
Beginning teacher mentoring	12,453	0	12,453
Additional teacher contract day	14,060	0	14,060
Market factor	13,005	0	13,005
Beginning administrator mentoring	366	0	366
Management levy	88,624	0	88,624
Physical plant and equipment levy	410,216	0	410,216
Capital projects	1,670,841	0	1,670,841
Debt service	459,793	0	459,793
Other special revenue purposes	162,012	0	162,012
Unrestricted	(89,835)	43,484	(46,351)
TOTAL NET ASSETS	\$ 6,149,678	86,065	6,235,743

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

WASHINGTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Charges for Expenses	Contributions and Restricted Services	Contributions and Restricted Interest	Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	Total
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 6,411,487	585,596	1,777,648	0	(4,048,243)	0	(4,048,243)
Special instruction	2,259,790	106,252	97,853	0	(2,055,685)	0	(2,055,685)
Other instruction	2,243,924	468,023	0	0	(1,775,901)	0	(1,775,901)
	10,915,201	1,159,871	1,875,501	0	(7,879,829)	0	(7,879,829)
Support services:							
Student services	769,657	0	0	0	(769,657)	0	(769,657)
Instructional staff services	912,962	0	0	0	(912,962)	0	(912,962)
Administration services	1,486,860	0	0	0	(1,486,860)	0	(1,486,860)
Operation and maintenance of plant services	1,352,186	0	0	0	(1,352,186)	0	(1,352,186)
Transportation services	641,513	0	26,466	0	(615,047)	0	(615,047)
	5,163,178	0	26,466	0	(5,136,712)	0	(5,136,712)
Other expenditures:							
Facilities acquisitions	79,696	0	0	142,688	62,992	0	62,992
AEA flowthrough	583,693	0	583,693	0	0	0	0
Depreciation (unallocated)*	850,611	0	0	0	(850,611)	0	(850,611)
	1,514,000	0	583,693	142,688	(787,619)	0	(787,619)
Total governmental activities	17,592,379	1,159,871	2,485,660	142,688	(13,804,160)	0	(13,804,160)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	635,446	295,328	342,775	0	0	2,657	2,657
Total	\$ 18,227,825	1,455,199	2,828,435	142,688	(13,804,160)	2,657	(13,801,503)
General Revenues:							
Property tax levied for:							
General purposes					\$ 5,128,236	0	5,128,236
Capital outlay					415,339	0	415,339
Local option sales and services tax					1,036,819	0	1,036,819
Unrestricted state grants					7,282,121	0	7,282,121
Unrestricted investment earnings					213,365	1,592	214,957
Other					71,564	0	71,564
Gain on sale of equipment					6,544	0	6,544
Total general revenues					14,153,988	1,592	14,155,580
Changes in net assets					349,828	4,249	354,077
Net assets beginning of year					5,799,850	81,816	5,881,666
Net assets end of year					\$ 6,149,678	86,065	6,235,743

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP (Note 4)	\$ 4,487,500	0	0	4,487,500
Other	462,950	1,831,636	1,087,741	3,382,327
Receivables:				
Property tax				
Delinquent	71,981	0	12,351	84,332
Succeeding year	3,819,735	0	618,636	4,438,371
Income surtax	629,741	0	0	629,741
Accounts	7,493	0	0	7,493
Accrued interest:				
ISCAP (Note 4)	33,331	0	0	33,331
Other	12,632	0	0	12,632
Due from other governments	314,743	219,215	116,674	650,632
TOTAL ASSETS	\$ 9,840,106	2,050,851	1,835,402	13,726,359
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 143,112	380,010	300	523,422
Salaries and benefits payable	1,377,151	0	0	1,377,151
ISCAP warrants payable (Note 4)	4,496,000	0	0	4,496,000
ISCAP interest payable (Note 4)	26,739	0	0	26,739
ISCAP unamortized premium	27,320	0	0	27,320
Deferred revenue:				
Succeeding year property tax	3,819,735	0	618,636	4,438,371
Income surtax	629,741	0	0	629,741
Total liabilities	10,519,798	380,010	618,936	11,518,744
Fund balances:				
Reserved for:				
Beginning teacher mentoring	12,453	0	0	12,453
Additional teacher contract day	14,060	0	0	14,060
Market factor	13,005	0	0	13,005
Beginning administrator mentoring	366	0	0	366
Unreserved:				
Undesignated:				
General	(719,576)	0	0	(719,576)
Management levy	0	0	184,445	184,445
Physical plant and equipment levy	0	0	410,216	410,216
Capital projects	0	1,670,841	0	1,670,841
Debt service	0	0	459,793	459,793
Other special revenue purposes	0	0	162,012	162,012
Total fund balances	(679,692)	1,670,841	1,216,466	2,207,615
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,840,106	2,050,851	1,835,402	13,726,359

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 2,207,615
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	4,408,143
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	629,741
Long-term liabilities, including QZAB bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,095,821)</u>
Net assets of governmental activites (page 13)	<u>\$ 6,149,678</u>

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 4,278,340	0	635,494	4,913,834
Local option sales and service tax	0	1,036,819	0	1,036,819
Tuition	521,579	0	0	521,579
Other	313,434	79,796	529,991	923,221
Intermediate sources	20,117	0	0	20,117
State sources	8,549,671	0	588	8,550,259
Federal sources	1,197,405	0	142,688	1,340,093
Total revenues	14,880,546	1,116,615	1,308,761	17,305,922
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	6,302,646	0	67,455	6,370,101
Special instruction	2,267,721	0	0	2,267,721
Other instruction	1,742,348	0	494,796	2,237,144
	10,312,715	0	562,251	10,874,966
Support services:				
Student services	769,657	0	0	769,657
Instructional staff services	899,178	0	0	899,178
Administration services	1,474,440	0	30,889	1,505,329
Operation and maintenance of plant services	1,300,384	0	64,749	1,365,133
Transportation services	575,062	0	165,746	740,808
	5,018,721	0	261,384	5,280,105
Other expenditures:				
Facilities acquisitions	0	691,552	635,878	1,327,430
AEA flowthrough	583,693	0	0	583,693
	583,693	691,552	635,878	1,911,123
Total expenditures	15,915,129	691,552	1,459,513	18,066,194
Excess(deficiency) of revenues over(under) expenditures	(1,034,583)	425,063	(150,752)	(760,272)
Other financing sources(uses):				
Transfer in	0	0	447,939	447,939
Transfer out	0	0	(447,939)	(447,939)
Sale of equipment and materials	6,544	0	0	6,544
Total other financing sources(uses)	6,544	0	0	6,544
Net change in fund balances	(1,028,039)	425,063	(150,752)	(753,728)
Fund balance beginning of year	348,347	1,245,778	1,367,218	2,961,343
Fund balance end of year	\$ (679,692)	1,670,841	1,216,466	2,207,615

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (753,728)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:

Expenditures for capital assets	\$ 1,508,338	
Depreciation expense	<u>(1,074,471)</u>	433,867

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		629,741
---	--	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement		<u>39,948</u>
------------------	--	---------------

Changes in net assets of governmental activities (page 14)	\$	<u><u>349,828</u></u>
--	----	-----------------------

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 111,145
Inventories	7,425
Capital assets, net of accumulated depreciation(note 5)	42,581
TOTAL ASSETS	<u>161,151</u>
LIABILITIES	
Accounts payable	29,192
Salaries and benefits payable	36,884
Unearned revenue	9,010
TOTAL LIABILITIES	<u>75,086</u>
NET ASSETS	
Invested in capital assets	42,581
Unrestricted	43,484
TOTAL NET ASSETS	<u>\$ 86,065</u>

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 295,328
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	218,474
Benefits	43,256
Services	271
Supplies	365,200
Depreciation	8,245
TOTAL OPERATING EXPENSES	<u>635,446</u>
OPERATING LOSS	<u>(340,118)</u>
NON-OPERATING REVENUES:	
Interest	1,592
State sources	9,271
Federal sources	333,504
TOTAL NON-OPERATING REVENUES	<u>344,367</u>
Net income	4,249
Net assets beginning of year	<u>81,816</u>
Net assets end of year	<u>\$ 86,065</u>

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 303,814
Cash received from miscellaneous operating activities	524
Cash payments to employees for services	(257,037)
Cash payments to suppliers for goods or services	(307,113)
Net cash used in operating activities	<u>(259,812)</u>
Cash flows from non-capital financing activities:	
State grants received	9,271
Federal grants received	303,481
Net cash provided by non-capital financing activities	<u>312,752</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(3,629)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,592</u>
Net increase in cash and cash equivalents	50,903
Cash and cash equivalents at beginning of year	<u>60,242</u>
Cash and cash equivalents at end of year	<u>\$ 111,145</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (340,118)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	30,023
Depreciation	8,245
Increase in inventories	(857)
Increase in accounts payable	29,192
Increase in salaries and benefits payable	4,693
Increase in deferred revenue	9,010
Net cash used in operating activities	<u>\$ (259,812)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 111,145</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$30,023.

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ <u>1,034,054</u>
LIABILITIES	<u>-</u>
NET ASSETS	
Reserved for scholarships	\$ <u><u>1,034,054</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 86,324
Contributions	50,000
Total additions	<u>136,324</u>
Deductions:	
Non-instructional programs:	
Scholarships awarded	<u>61,417</u>
Total deductions	<u>61,417</u>
Change in net assets	74,907
Net assets beginning of year	<u>959,147</u>
Net assets end of year	<u><u>\$ 1,034,054</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Washington Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The District also operates or sponsors various adult education programs. The geographic area served primarily includes the City of Washington, Iowa, and the predominate agricultural territory of Washington and Jefferson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Washington Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Washington Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Washington and Jefferson County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary fund is the Enterprise, School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund is the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax

accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	40 years
Land improvements	15 years
Machinery and equipment	4-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue

consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, the District exceeded budgeted amounts in the instruction and non-instructional functions.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment trust as follows:

Diversified Portfolio

<u>Amortized Cost</u>
<u>\$ 1,003</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor's Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name. Certificates of deposit are stated at fair value.

At June 30, 2007, the District had investments in Certificates of Deposit maturing in over one year as follows:

<u>Fair Value</u>
<u>\$ 426,650</u>

(3) Interfund Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 447,939</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07B	1/26/2007	1/25/2008	\$ 1,436,328	32,419	1,440,000	25,988
2007-08A	6/27/2007	6/27/2008	3,051,172	912	3,056,000	751
			<u>\$ 4,487,500</u>	<u>33,331</u>	<u>4,496,000</u>	<u>26,739</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006/07A	\$ 0	900,000	900,000	0

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 104,165	3,629	0	107,794
Less accumulated depreciation	56,968	8,245	0	65,213
Business-type activities capital assets, net	<u>\$ 47,197</u>	<u>(4,616)</u>	<u>0</u>	<u>42,581</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 544,857	0	0	544,857
Construction in progress	0	1,078,145	0	1,078,145
Total capital assets not being depreciated	544,857	1,078,145	0	1,623,002
Capital assets being depreciated:				
Buildings	3,839,060	105,922	685,287	3,259,695
Land improvements	825,839	63,667	0	889,506
Machinery and equipment	2,301,122	260,604	154,092	2,407,634
Total capital assets being depreciated	6,966,021	430,193	839,379	6,556,835
Less accumulated depreciation for:				
Buildings	2,062,622	125,249	685,287	1,502,584
Land improvements	0	725,362	0	725,362
Machinery and equipment	1,473,980	223,860	154,092	1,543,748
Total accumulated depreciation	3,536,602	1,074,471	839,379	3,771,694
Total capital assets being depreciated, net	3,429,419	(644,278)	0	2,785,141
Governmental activities capital assets, net	\$ 3,974,276	433,867	0	4,408,143

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 54,233
Special	8,563
Other	11,476
Support services:	
Instructional services	13,784
Administration	7,053
Operation and maintenance	8,330
Transportation	120,421
	223,860
Unallocated depreciation	850,611
Total governmental activities depreciation expense	\$ 1,074,471
Business-type activities:	
Food services	\$ 8,245

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
QZAB Bonds	\$ 1,000,000	0	0	1,000,000	0
Early Retirement	135,769	56,881	96,829	95,821	51,877
Total	\$ 1,135,769	56,881	96,829	1,095,821	51,877

Qualified Zone Academy Bonds (QZAB)

The Qualified Zone Academy Bonds were received by the District on January 24, 2002. These bonds were issued as capital loan notes and will mature on January 24, 2012. The District received \$1,000,000 to remodel school facilities. The District deposits \$86,130 annually into an escrow account, which is held by Banker's Trust on behalf of the District. Funds in the escrow account will be used to repay the bonds when they mature. The escrow account earns interest at 3.25%.

Early Retirement

The District offers a voluntary early retirement plan to District employees who have fifteen years of continuous service to the District and are over age fifty-five. The amount of early retirement pay for certified employees is equal to sixty-five percent of the employee's base salary. The amount of early retirement pay for non-certified employees is equal to sixty-five percent of the difference between the employee's salary and the amount of the annual pay if the federal minimum wage was used instead of the employee's current hourly rate.

The employee must notify the Board by March 1st to receive the early retirement benefit. For both certified and non-certified employees, the cash payout amount cannot exceed \$28,000 per employee. At June 30, 2007, the accumulated retirement pay is \$95,821 with ten individuals receiving the benefit.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$548,734, \$541,600 and \$523,704 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$583,693 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed the certified budget amounts. During the year ended June 30, 2007, the District exceeded budgeted amounts in the instruction and non-instructional functions.

(11) Deficit Fund Balance

At June 30, 2007, the General Fund had a deficit undesignated fund balance of \$719,576 and the Activity Fund also had thirty-six deficit accounts totaling \$109,083.

(12) Construction Commitment

The District has entered into a construction contract totaling \$4,136,917 for the construction of a new middle school. As of June 30, 2007, costs of \$791,550 had been incurred against the contract. The balance of \$3,336,127 remaining at June 30, 2007, will be paid as work on the project progresses.

(13) Special Investigation

The State Auditor's office conducted a special investigation of the Washington Community School District, dated January 5, 2007 and released the report on April 4, 2007. The special investigation was for the period of June 1, 2003 to October 31, 2006. More information is available in comment IV-N-07 on page 56 of this audit report.

REQUIRED SUPPLEMENTARY INFORMATION

WASHINGTON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary		Budgeted Amounts		Final to
Fund Types	Fund Type	Total		Original	Final	Actual
Actual	Actual	Actual				Variance
Revenues:						
Local sources	\$ 7,395,453	296,920	7,692,373	8,202,662	8,202,662	(510,289)
Intermediate sources	20,117	0	20,117	5,000	5,000	15,117
State sources	8,550,259	9,271	8,559,530	8,851,878	8,851,878	(292,348)
Federal sources	1,340,093	333,504	1,673,597	1,910,000	1,910,000	(236,403)
Total revenues	17,305,922	639,695	17,945,617	18,969,540	18,969,540	(1,023,923)
Expenditures:						
Instruction	10,874,966	0	10,874,966	10,179,000	10,179,000	(695,966)
Support services	5,280,105	0	5,280,105	7,878,901	7,878,901	2,598,796
Non-instructional programs	0	635,446	635,446	626,400	626,400	(9,046)
Other expenditures	1,911,123	0	1,911,123	5,406,711	5,406,711	3,495,588
Total expenditures	18,066,194	635,446	18,701,640	24,091,012	24,091,012	5,389,372
Excess of revenues over expenditures	(760,272)	4,249	(756,023)	(5,121,472)	(5,121,472)	4,365,449
Other financing sources, net	6,544	0	6,544	20,000,000	20,000,000	(19,993,456)
Excess of revenues and other financing sources over expenditures	(753,728)	4,249	(749,479)	14,878,528	14,878,528	(15,628,007)
Balance beginning of year	2,961,343	81,816	3,043,159	3,815,253	3,815,253	772,094
Balance end of year	\$ 2,207,615	86,065	2,293,680	18,693,781	18,693,781	(14,855,913)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WASHINGTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, the District exceeded budgeted amounts in the instruction and non-instructional functions.

OTHER SUPPLEMENTARY INFORMATION

WASHINGTON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 180,205	162,312	285,431	627,948	459,793	1,087,741
Receivables:						
Property tax						
Current year delinquent	4,240	0	8,111	12,351	0	12,351
Succeeding year	190,000	0	428,636	618,636	0	618,636
Due from other governments	0	0	116,674	116,674	0	116,674
TOTAL ASSETS	\$ 374,445	162,312	838,852	1,375,609	459,793	1,835,402
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 0	300	0	300	0	300
Deferred revenue:						
Succeeding year property tax	190,000	0	428,636	618,636	0	618,636
Total liabilities	190,000	300	428,636	618,936	0	618,936
Fund balances:						
Reserved for debt service	0	0	0	0	459,793	459,793
Unreserved	184,445	162,012	410,216	756,673	0	756,673
Total fund balances	184,445	162,012	410,216	756,673	459,793	1,216,466
TOTAL LIABILITIES AND FUND BALANCES	\$ 374,445	162,312	838,852	1,375,609	459,793	1,835,402

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WASHINGTON COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 220,155	0	415,339	635,494	0	635,494
Other	21,528	477,275	19,334	518,137	11,854	529,991
State sources	201	0	387	588	0	588
Federal sources	0	0	142,688	142,688	0	142,688
TOTAL REVENUES	241,884	477,275	577,748	1,296,907	11,854	1,308,761
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	67,455	0	0	67,455	0	67,455
Other instruction	0	494,796	0	494,796	0	494,796
Support services:						
Administration services	30,889	0	0	30,889	0	30,889
Operation and maintenance of plant services	64,749	0	0	64,749	0	64,749
Transportation services	98,132	0	67,614	165,746	0	165,746
Other expenditures:						
Facilities acquisition	0	0	635,878	635,878	0	635,878
TOTAL EXPENDITURES	261,225	494,796	703,492	1,459,513	0	1,459,513
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(19,341)	(17,521)	(125,744)	(162,606)	11,854	(150,752)
OTHER FINANCING SOURCES(USES):						
Transfers in	0	0	0	0	447,939	447,939
Transfers out	0	0	(447,939)	(447,939)	0	(447,939)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(447,939)	(447,939)	447,939	0
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	(19,341)	(17,521)	(573,683)	(610,545)	459,793	(150,752)
FUND BALANCE BEGINNING OF YEAR	203,786	179,533	983,899	1,367,218	0	1,367,218
FUND BALANCE END OF YEAR	\$ 184,445	162,012	410,216	756,673	459,793	1,216,466

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WASHINGTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Student activities	\$ 56,356	19,966	10,522	65,800
Student wellness	5,981	9,437	13,168	2,250
Assure center fundraiser	547	347	484	410
CO pop fund	748	921	905	764
Special ed registration fees	1,655	0	0	1,655
Special olympics	275	200	461	14
Stewart library	1,419	1,352	1,477	1,294
Stewart playground fund	3,114	0	0	3,114
Adults caring for children	22,354	0	6,039	16,315
Stewart book fair	3,099	2,108	1,000	4,207
Stewart landscape	1,075	0	0	1,075
Stewart pop fund	2,477	1,755	1,623	2,609
Lincoln pop fund	0	693	569	124
Student activity fund balance	0	693	358	335
HS general concessions	(616)	16,996	16,980	(600)
HS popcorn	4,010	1,669	1,000	4,679
HS fundraiser	789	0	63	726
HS candy sales	2,238	0	0	2,238
HS best buddies	0	585	931	(346)
HS TATU	47	294	0	341
Renaissance	372	7,849	7,346	875
HS drama	2,605	10,590	7,227	5,968
HS La Onda	1,683	372	648	1,407
HS SADD	97	1,210	957	350
HS speech	1,346	869	1,230	985
HS trip fundraiser	(16)	0	0	(16)
HS vocal music	1,625	5,470	6,167	928
HS band uniforms	(499)	1,695	2,269	(1,073)
HS instrumental music	(169)	12,561	12,564	(172)
HS annual	1,516	22,121	31,511	(7,874)
HS drafting resale	0	2	0	2
HS newspaper	8,350	9,265	7,804	9,811
HS art club	540	10,276	8,611	2,205
HS cheerleaders	4,181	11,283	12,577	2,887
HS drill team	1,446	3,971	2,606	2,811
HS FFA	3,238	22,225	22,251	4,564
HS FHA	76	19	57	38
HS FOFES	127	0	0	127
VOW	657	292	115	834
HS NHS	210	181	453	(62)

WASHINGTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS office ed-BPA	643	8,304	7,758	1,189
HS science club	537	0	0	537
HS student congress	1,089	15,941	13,596	3,434
HS earth book	692	1,078	698	1,072
HS student recognition	1	9,625	19,295	(9,669)
Class of 2006	48	0	48	0
Class of 2007	4,474	1,128	4,549	1,053
Class of 2008	984	200	59	1,125
Class of 2009	0	660	500	160
Class of 2010	0	48	0	48
HS athletic director	22,619	28,624	16,052	35,191
HS activity tickets	11,367	9,970	13,779	7,558
Cross country	(4,444)	1,687	2,248	(5,005)
Case field fundraising	3,767	19,937	26,280	(2,576)
Football fundraising	4,801	11,346	6,946	9,201
HS boys basketball	9,151	10,035	5,993	13,193
HS football	12,637	39,802	32,084	20,355
HS baseball	(8,797)	8,293	10,777	(11,281)
HS boys track	(4,888)	6,619	13,542	(11,811)
HS boys golf	(594)	605	2,090	(2,079)
HS soccer	(5,036)	1,379	5,506	(9,163)
HS wrestling	(2,928)	1,811	3,549	(4,666)
HS girls basketball	5,014	4,974	5,711	4,277
HS volleyball	(3,561)	12,837	11,430	(2,154)
HS softball	(2,961)	5,361	9,174	(6,774)
HS girls track	(6,412)	3,662	5,934	(8,684)
HS girls golf	(3,153)	348	3,159	(5,964)
JH activity	1,021	1,240	943	1,318
JH concessions	366	16,657	15,783	1,240
JH fundraising	18,806	34,974	40,023	13,757
JH special travel	208	0	0	208
JH speech	(12)	140	608	(480)
JH student congress	3,639	1,395	1,783	3,251
JH vocal music	1,395	10,945	8,247	4,093
JH instrumental music	476	6,320	4,348	2,448
JH outdoor classroom	(74)	0	0	(74)
JH odyssey	(557)	0	0	(557)
JH one act plays	(1,849)	1,025	1,686	(2,510)
JH student awards	(1,856)	0	655	(2,511)
JH cheerleaders	1,637	7,534	5,516	3,655
JH dance team	934	350	1,275	9

WASHINGTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
9th boys basketball	(1,321)	1,214	862	(969)
8th boys basketball	(2,019)	794	846	(2,071)
7th boys basketball	(78)	889	837	(26)
JH cross country	28	100	144	(16)
9th football	(842)	1,880	2,408	(1,370)
8th football	(2,963)	1,602	737	(2,098)
7th football	(1,618)	509	449	(1,558)
7th & 8th boys track	189	507	655	41
7th & 8th wrestling	(1,101)	531	341	(911)
9th girls basketball	(1,858)	889	930	(1,899)
8th girls basketball	(930)	683	596	(843)
7th girls basketball	0	738	441	297
7th & 8th volleyball	(557)	1,327	737	33
7th & 8th girls track	(1,385)	1,701	1,365	(1,049)
JH bio tech conf	1,645	0	1,645	0
JH drug-free/Quest	206	0	206	0
5th grade	0	200	74	126
6th grade	0	1,590	1,090	500
Tech student	0	0	188	(188)
Total	\$ 179,533	477,275	494,796	162,012

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WASHINGTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30,				
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 5,950,653	5,860,594	5,042,238	4,878,498
Tuition	521,579	463,363	481,870	422,320
Other	923,221	622,688	574,431	470,914
Intermediate sources	20,117	0	0	0
State sources	8,550,259	8,380,075	7,863,313	7,394,727
Federal sources	1,340,093	1,250,747	1,557,552	1,333,779
Total	\$ 17,305,922	16,577,467	15,519,404	14,500,238
Expenditures:				
Instruction:				
Regular instruction	\$ 6,370,101	6,246,527	5,706,369	5,633,256
Special instruction	2,267,721	1,927,512	1,781,379	1,661,340
Other instruction	2,237,144	1,585,794	1,539,347	1,103,684
Support services:				
Student services	769,657	1,067,968	1,225,400	1,356,971
Instructional staff services	899,178	1,061,102	1,102,230	1,054,190
Administration services	1,505,329	1,400,167	1,317,264	1,209,895
Operation and maintenance of plant services	1,365,133	1,349,345	1,184,544	1,039,827
Transportation services	740,808	693,682	450,799	719,057
Other expenditures:				
Facilities acquisitions	1,327,430	239,146	197,846	563,676
Long-term debt:				
Principal	0	0	102,500	102,500
Interest and other charges	0	0	3,663	8,343
AEA flow-through	583,693	545,029	516,270	509,219
Total	\$ 18,066,194	16,116,272	15,127,611	14,961,958

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WASHINGTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
(GRANTS TO REDUCE ALCOHOL ABUSE)	84.184	FY 06	\$ 16,601
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
(GRANTS TO REDUCE ALCOHOL ABUSE)	84.184	FY 07	312,290
			<u>328,891</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (SMALLER LEARNING) COMMUNITIES PROGRAM)	84.215	FY 06	143,904
FUND FOR THE IMPROVEMENT OF EDUCATION (SMALLER LEARNING) COMMUNITIES PROGRAM)	84.215	FY 07	136,115
			<u>280,019</u>
TOTAL DIRECT:			<u>608,910</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS (non-cash)	10.550	FY 07	<u>30,023</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	58,615
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	244,866
			<u>303,481</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	1701-G	227,843
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	1701-GC	16,365
			<u>244,208</u>

WASHINGTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 07	<u>97,853</u>
VOCATIONAL EDUCATION BASIC GRANTS TO STATES	84.048	FY 07	<u>17,497</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.184	FY 07	<u>12,551</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (FIRE SAFETY GRANT)	84.215	FY 05	26,014
FUND FOR THE IMPROVEMENT OF EDUCATION (FIRE SAFETY GRANT)	84.215	FY 06	<u>116,674</u>
			<u>142,688</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 07	<u>27,193</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 07	<u>71,646</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI)	84.369	FY 07	<u>12,404</u>
TOTAL INDIRECT			<u>959,544</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,568,454</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Washington Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Washington Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Washington Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 7, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Washington Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Washington Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Washington Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Washington Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Washington Community School District's financial statements that is more than inconsequential will not be prevented or detected by Washington Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Washington Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Washington Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Washington Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Washington Community School District and other parties to whom Washington Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Washington Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 7, 2008

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Washington Community School District

Compliance

We have audited the compliance of Washington Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Washington Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Washington Community School District's management. Our responsibility is to express an opinion on Washington Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Washington Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Washington Community School District's compliance with those requirements.

In our opinion, Washington Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Washington Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Washington Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Washington Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Washington Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Washington Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Washington Community School District and other parties to whom Washington Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

February 7, 2008

WASHINGTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.184 - Safe and Drug-Free Schools and Communities - State Grants (Grants to Reduce Alcohol Abuse)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Washington Community School District did not qualify as a low-risk auditee.

WASHINGTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person, as well as, the work of the Business Manager not being reviewed by another employee.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We are always looking for ways to improve our internal controls and are willing to make changes that improve our situation.

Conclusion - Response accepted.

II-B-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - We are working with the Athletic Director to develop a system for reporting ours worked by non-certified staff coaches.

Conclusion - Response accepted.

II-C-07 Clothing Purchased for Coaches - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - The District has developed a public purpose policy. However, if it is determined that proposed expenditures do not comply with the policy the purchased items will remain the property of the District. Certain employees will be allowed to use the items while employed by the District.

Conclusion - Response accepted.

II-D-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Recommendation - It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Donations from Box Tops for Education were recorded in accounts in the Student Activity Fund. These donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General Fund for use in all instructional supplies/services.

Purchase of library books from the Stewart Library Donation account. Purchase of library books is instructional and should be made from the General Fund. If the moneys in this account were donated for this purpose, it is only logical that the donations be recorded in the General Fund. The remaining funds should be transferred to the General Fund.

The Stewart landscaping and Stewart playground and accounts are used primarily for the purchase of playgroup equipment and landscaping projects at the Stewart building. There is also a Case Field fundraising account that is used for maintenance/construction projects at the athletic field. Expenditures like this would be more appropriately run through the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL). The District should transfer remaining monies in these accounts to the PPEL Fund.

There are pop accounts for the various building in the District. Expenditures from these accounts are to stock the faculty break rooms with beverages, flowers for staff members, and meals for staff meetings. These accounts appear to be administratively run and should not be contained within the Activity Fund. The accounts appear to be more appropriate in the General Fund.

There is a Revolving account which appears to be an interest account in the Student Activity Fund. Interest received in this account should be allocated amongst the individual activity fund accounts that earned the interest during the year. Allocation of interest should be done at least annually.

The Athletic Director, Student Activity balance, HS popcorn, HS general concessions, HS fundraiser, and HS candy sales appear to be administratively maintained rather than by student groups or extra-curricular organizations. These accounts should be closed out to other accounts in the Student Activity Fund or to another fund that is determined to be more appropriate.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

Response - The accounts mentioned will be closed out or transferred to the appropriate funds.

Conclusion - Response accepted.

WASHINGTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2007
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2007
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.184 - Safe and Drug-Free Schools and Communities - State Grants
(Grants to Reduce Alcohol Abuse)
Federal Award Year: 2006 & 2007
U.S. Department of Education

III-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person, as well as, the work of the Business Manager not being reviewed by another employee.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We are always looking for ways to improve our internal controls and are willing to make changes that improve our situation.

Conclusion - Response accepted.

III-B-07 Safe and Drug Free Schools and Communities Grant - We noted during our audit unallowable expenditures of grant monies by a former District employee. As of the audit date, the District had not contacted the Department of Education to resolve the unallowable expenditures as suggested by the State Auditor's Office in the Special Investigation report (see comment IV-N-07).

Recommendation - The District should contact the Department of Education to determine what action is necessary to resolve the unallowable use of grant monies.

Response - We have contacted the Department of Education and are currently working out a remedy for the inappropriate expenditures.

Conclusion - Response accepted.

WASHINGTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget - District disbursements for the year ended June 30, 2007 exceeded budgeted amounts in the in the instruction and non-instructional functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, the budget will be amended when needed.

Conclusion - Response accepted.

IV-B-07 Questionable Disbursements - We noted during our audit that the District wrote checks or gave cash to individual students from the Student Activity Fund. These checks were issued for cash incentives for selling magazines. Sales incentives do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The District has developed alternative incentive programs for the magazine sales fundraiser.

Conclusion - Response accepted.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Sid Ryan, Coach Owns IGRAPHIX	Supplies	\$17,183
Mary Alice Smith, Board Member Spouse owns Community Medical	Supplies	\$7,206

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the coach do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouse of a Board Member do not appear to represent a conflict of interest.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-J-07 Financial Condition - At June 30, 2007, the General Fund had a deficit undesignated fund balance of \$719,576 and the Activity Fund also had thirty-six deficit accounts totaling \$109,083.

Recommendation - The District should investigate alternatives to eliminate these deficit balances. The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts.

Response - The District has introduced an expenditure reduction plan that the Board of Education will take final action on in March 2008. The Business Manager and the Athletic Director will work together to reallocate activity account balances.

Conclusion - Response accepted.

IV-K-07 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations of the General, Activity and Nutrition Funds which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - The District will develop a system to address outstanding checks on a more current basis.

Conclusion - Response accepted.

IV-L-07 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events. The District currently receipts this into the Student Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The district should receipt rent collected for facility usage into the General Fund.

Response - The District will begin receipting an amount consistent with the gym rental policy into the General Fund when district and regional gate receipts are collected.

Conclusion - Response accepted.

IV-M-07 Construction Change Orders - We noted during our audit that the Superintendent was signing change orders for construction contracts that the District is engaged in. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts the District enters into.

Response - The District will comply.

Conclusion - Response accepted.

IV-N-07 State Auditor's Office Special Investigation - As noted in Note 13 of the District's financial statements, the State Auditor's office conducted a special investigation of the Washington Community School District, dated January 5, 2007 and released the report on April 4, 2007. The special investigation was for the period of June 1, 2003 to October 31, 2006. Their comments are listed as follows:

- A) Segregation of Duties - need for better controls in regards to one employee handling duties which are incompatible.
- B) Disbursements - need for better controls in regards to purchase orders and disbursement of funds for payment of invoices received by the District.
- C) Receipts - the need of the District to improve upon controls in place in regards to admission to events sponsored by the District and subsequent depositing of funds.
- D) Policies and Procedures - the need for the District to review and update existing outdated board policies and cash handling procedures by District employees.
- E) Safe and Drug Free Schools and Communities Grant - need for proper purchase order procedures and verifying expenditures made from this grant are allowable.
- F) Petty Cash - need for the District to check that there are no unauthorized petty cash boxes being maintained at the various buildings. If there are petty cash funds, that the petty cash is being used for appropriate expenditures.
- G) Access to Lunch Account System - need for better controls to ensure that only persons responsible for the collection and recording of funds have access to the system.

The District has responded to the comments and is reviewing their procedures. As corrective actions are reached, they will be implemented by the District to comply with the recommendations of the State. Further information and the complete special investigation report may be obtained on the website of the State Auditor's Office.